

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Quarterly Litigation Report

ITEM NUMBER: 11

ATTACHMENT(S): 1

ACTION:

DATE OF MEETING: April 6, 2000

INFORMATION: X

PRESENTER (S): Chris Waddell

The report is attached.

**Quarterly Litigation Report
April 2000**

Changes to the report are in bold type.

William J. Tully v. STRS

San Bernardino Superior Court No. 32185

Plaintiff's Counsel: Pro Per

STRS' Counsel: Susan Oie, DAG

Plaintiff's member wife passed away on July 18, 1996. Prior to her death, she designated Plaintiff as her death benefit and Option 2 beneficiary. As the option beneficiary Plaintiff was entitled to a monthly option allowance upon his wife's death for his life. Before the System began payment however, on or about August 1, 1996, STRS was served with an Internal Revenue Service (IRS) Notice of Levy on Wages, Salary and Other Income against Plaintiff's STRS benefits. The file reflects that several conversations between Mr. Tully and System staff took place regarding payment of the monthly allowance and the levy. During this period of time the System did not make any payments to Mr. Tully or the IRS.

On January 28, 1998, the System received by U.S. mail a copy of a Summons and Verified Complaint filed by Plaintiff seeking general damages in the amount of \$1,000,000,000.00; special damages in the amount of \$5,000,000,000.00; punitive damages in the amount of \$5,000,000,000.00, costs of suit; injunctive and declaratory relief, and such other relief as the court may deem proper. During its review of Plaintiffs file in January of this year, it was discovered for the first time that STRS had inadvertently neglected to distribute any of the benefits payable to either Plaintiff or the IRS. Further in the course of its review, STRS contacted the IRS to determine the status of its August 1, 1996 levy against Plaintiffs benefits. At that time, the System was informed that the IRS had issued a second levy against Plaintiffs benefits in the amount of \$468,374. This levy was served on STRS on or about January 28, 1998.

Upon receipt of the second Levy STRS took immediate steps to implement the distribution of Plaintiffs monthly option allowance. Toward that end, and in accordance with the information provided by Plaintiff in the "Statement of Exemptions and Filing Status" received by STRS on or about March 5, 1998 from Plaintiff, STRS calculated the amount of monthly exemption to which Plaintiff was entitled in light of the January 28, 1998 levy to be \$1,058.33. Effective March 1, 1998, STRS began paying Plaintiff that amount as and for distribution of his portion of the monthly option benefit. The balance of Plaintiffs monthly benefit (presently \$710.50) is

being distributed by the System to the IRS in accordance with the January 28, 1998 levy. The monthly benefits will continue to be distributed in this fashion for the remainder of Plaintiffs life or until such time as STRS receives instructions from the IRS - or a court of competent jurisdiction - to the contrary.

The sum of \$40,030.12 remained payable by STRS as and for distribution of benefits for the period July 19, 1996 through February 28, 1998. These include monthly option benefits for the period July 19, 1996 through February 28, 1998 in the amount of \$33,925.58; a statutory lump sum death benefit in the amount of \$5,110.00; and, accrued allowance in the amount of \$994.54. Inasmuch as the benefits remained payable at the time STRS was served with the January 28, 1998 levy, the IRS asserted a right to the entire \$40,030.12, less applicable exemptions, in accordance with the Internal Revenue Code. Accordingly, STRS distributed the sum of \$20,030.12 of the accrued benefits to the IRS. The balance of the accrued benefits - \$20,000.00 in exemptions - has been distributed to Plaintiff. Plaintiff contends that he is entitled to the entire \$40,030.12 in benefits on the grounds that the benefits cannot be distributed in accordance with the August 1, 1996 levy because that levy was released by way of expiration on or about October 17, 1997. (STRS had no notice that the August 1, 1996 levy expired prior to its receipt of correspondence from Plaintiff dated May 27, 1998, to that effect.) Plaintiff further contends that the benefits cannot be distributed in accordance with the January 28, 1998 levy because that levy cannot apply retroactively.

Plaintiff filed a Board of Control claim for the amounts requested in his complaint. The claim was rejected on September 28, 1998 as it raised complex issues of fact and law which would be better resolved through litigation. CalSTRS filed its Answer to Verified Complaint on or about January 1, 1998. No date has been set for trial.

Norma Cook v. STRS

San Francisco County Superior Court

Plaintiff's Counsel: Pro Per

STRS Counsel: DAG Geoff Graybill

Plaintiff filed an application for a disability allowance on November 30, 1992. Her application was denied and she requested an administrative hearing. The hearing was held in Oakland, California on May 13 and July 19, 1996 before Administrative Law Judge Lew who rendered a Proposed Decision denying her appeal. This Proposed Decision was adopted by the Benefits and Services Committee of the Teachers' Retirement Board on November 7, 1996. On or about June 10, 1997 Plaintiff filed a Petition for Alternative Writ of Mandate requesting the Superior Court review the denial of her application for a disability allowance. No hearing date has been set.

Emogene Doyel v. STRS

Sacramento County Superior Court

Plaintiff's Counsel: Thomas D. Walker

STRS Counsel: DAG Leslie Lopez

Plaintiff, the spouse of Mark Doyel, a deceased STRS member, requested that the System grant her an Option 2 survivor allowance. This request was based on a Pre-Retirement Election of an Option executed by Mark Doyel naming Plaintiff as the Option beneficiary that was found in one of Mark Doyel's home files after his death. The System denied the request for the reason that the election had to be on file with the System in Sacramento within 30 days of signature by the member. The election form was never sent to STRS. An Administrative Hearing was held in the matter on February 13, 1998 before Administrative Law Judge Richard Lopez. On April 15, 1998 Judge Lopez rendered a Proposed Decision denying the Plaintiff's request. At its meeting on June 4, 1998, the Benefits and Services Committee rejected the Proposed Decision and chose to decide the matter itself on the transcript without taking any additional evidence. The Committee heard the matter on October 8, 1998 and denied Plaintiff's request to be granted an Option 2 allowance. A Petition for Writ of Administrative Mandate was filed on February 26, 1999. **The matter was heard on December 6, 1999. The Court denied the Petition in its decision entered January 3, 2000. We have been advised by Mrs. Doyel's counsel that she will not appeal the decision. This matter is closed and will be removed from the Litigation Summary.**

Joan McCarthy and Angelo Festa, On Behalf of Themselves and All Others Similarly Situated v. CalSTRS

Superior Court for the County of San Francisco – Case No. 308157

Plaintiff's Counsel: Gold Bennett & Cera LLP and Law Offices of Joseph C. Barton

CalSTRS Counsel: Carroll & Scaly (Fiduciary Counsel provided by Chubb, CalSTRS Fiduciary Insurance Carrier)

CalSTRS was served with a class action complaint on November 30, 1999, seeking monetary damages and equitable relief on behalf of a class of 5,933 retirants who retired prior in 1998. The plaintiffs allege CalSTRS breached its common law and statutory fiduciary duty owed to the class of members who retired in 1998 by failing to adequately disclose that important legislation pending in the California Legislature would substantially enhance pension benefits for CalSTRS members who retired on or after January 1, 1999 (AB 1150 and AB1102, the "Teacher Recruitment and Retention Benefits Package"). Plaintiffs further allege CalSTRS breached its duty of care by the failure to exercise reasonable care in making the representations and disclosures that induced Plaintiffs and the Plaintiff Class to retire in 1998. Finally, the Plaintiffs allege that CalSTRS acted negligently in failing to exercise reasonable care owed them and request a judgment awarding the Plaintiffs compensatory damages, cost and

expenses, including reasonable attorneys' accountants' and experts' fees and other relief as the Court may deem just and proper.

An answer to the Complaint is due 30 days after date of service. The required notice of the claim and request for legal representation was filed with our fiduciary insurance carrier through our broker. As I requested the insurance carrier approved the law firm of Carroll & Scully to represent CalSTRS in this matter. The Office of the Attorney General will also be involved in an oversight capacity to insure that CalSTRS' receives the best defense possible.

Counsel for the System filed a demurrer seeking to dismiss the complaint. Prior to the hearing the court rendered a tentative decision to sustain the demurrer without leave to amend the complaint. However at the hearing the court listened to arguments and took the matter under submission. On March 13, 2000, the court sustained the demurrer but granted plaintiffs ten days to amend the complaint to plead an exception for complying with the Tort Claims Act and to plead a statutory basis for liability under Government Code Section 815.

Orange Unified School District (Orange) v. CalSTRS

Orange County Superior Court Case No. 810861

Plaintiff's Counsel: Arnold Woo, Hill, Farrer & Burrill LLP

CalSTRS Counsel: Deputy Attorney General Je

This matter was heard by the Office of Administrative Hearings on November 10, 1998. On January 26, 1999 Judge Byrnes rendered his Proposed Decision denying the appeal by Orange. The Benefits and Services Committee adopted the Proposed Decision on March 4, 1999. The issue involves creditable compensation. Since 1992 Orange had been paying each of its "Leadership" (management) employees from one of three salary schedules in lieu of a fringe benefit. The System determined upon discovery that the additional compensation was not creditable because all employees in the same class were not paid the same dollar amount, percentage of salary, or the same percentage of the amount being distributed as required by Section 22119.2 and 22119.5 of the Education Code. The Administrative Law Judge agreed with the System's position. Orange did not agree and filed a Petition for a Writ of Mandate, which was denied on January 14, 2000. Orange filed a timely Notice of Appeal on March 6, 2000.